Unit Fund Token - The Internet's Own VC Firm

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Abstract

The advent of Initial Coin Offerings (ICOs) has been a boon for investors around the world, allowing individual investors from anywhere in the world to contribute to the growing crypto-economy without the regulatory involvement of any nation state or any third party. This direct result of this sudden drop in regulation is the rise of a large number of unscrupulous initiatives that lure investors with untold profits, lacking any substantial product or initiative to support such claims. This has resulted in a gold rush of "scams", branding ICOs as a new haven for fraudsters. In this paper, we propose a variation of the well-established concept of Venture Capital (VC) funding that does not rely on the investment of a few Limited Partners (LPs) but is instead comprised of numerous individual investors. We explore how such a fund may address the challenge of trust in the online ICO marketplace, while also allowing the majority of online citizens to participate. We also include a detailed description of how the Unit Fund, the first such fund, operates as well as an explanation of the Unit Fund Token (UFT). We conclude with a an explanation of the launch plan and the roadmap post-launch.

1 Value Proposition

We propose the UFT as a token of exchange in a secure, decentralized investment funding system with the following properties:

- No investment minimums, allowing investors with disposable incomes to participate in the fund without any minimum income or geographic restrictions.
- A managed fund that reviews and vets investment opportunities using established Due Diligence (DD) practices that are prevalent in the Venture Capital industry. This is in contrast to traditional ICOs that are currently unregulated, posing a greater fraud risk.
- A potential Internal Rate of Return (IRR) that exceeds that of current interest rates across the global economy.

2 Introduction

> "There is no question that many of the ICO's receiving investments now will not succeed. This is not to suggest that they are scams necessarily, but the fact remains that many new ventures in any sector fail, and this will be the case with blockchains as well." — John Koetsier, Inc

The recent rise in ICOs for various categories of companies has facilitated in the creation of vast economic opportunities, measured in the billions. The combined market capitalization of the Bitcoin and Ethereum blockchains has already surpassed $60B, and will likely continue to rise as the number of applications built upon these networks continue to grow. One feature that enabled this rapid growth is the ICO, a way for small teams to raise funding in order to execute on their ideas quickly and with minimal oversight. Indeed, many companies that have resorted to raising funding through ICOs cite this quality of ICOs as a key driver for their resorting to use them.

However, there have also been numerous cases of companies that have leveraged this lack of regulatory oversight for unscrupulous ends. Examples like deClouds, Monaco where many millions of dollars were raised only to be succeeded by silence from the project owners have left an indelible scar on all ICOs. Many online portals have published guidelines and best practices that investors should follow in order to protect themselves, or at the very least limit the potential losses that they incur. However, it's unlikely that this will ever reach more than a small percentage of the overall population of investors in the cryptocurrency space.

It's apparent that some degree of regulation for ICOs is necessary, but in the online world of decentralized technology it would prove difficult to reach a consensus on a single, central body that would be responsible for regulating such listings. This results in a harrowing spiral towards the bottom. The success of fraudulent ICOs would draw more fraudsters to the ICO arena, launching ever-more ICOs that would result in more duped investors. The end result could be a phenomena akin to the "Nigerian prince scam" emails, where only those that have never heard of ICOs would risk investing in one at all. The majority, having succumbed to massive losses would prefer to stand on the sidelines and exercise caution. This would bring an unfortunate result to an economic vehicle that has the power to bring into existence initiatives that otherwise may not have been created.

3 Unit Fund

VCs have already solved the above problem. With generally accepted best practices already in place for performing due diligence, VCs are able to decide whether a particular team's idea has merit and warrants investment or it does not. The industry standard returns of 20%+ are favorable, but currently only available to a small group of LPs, those high net-worth individuals and institutions that support the VCs fund.

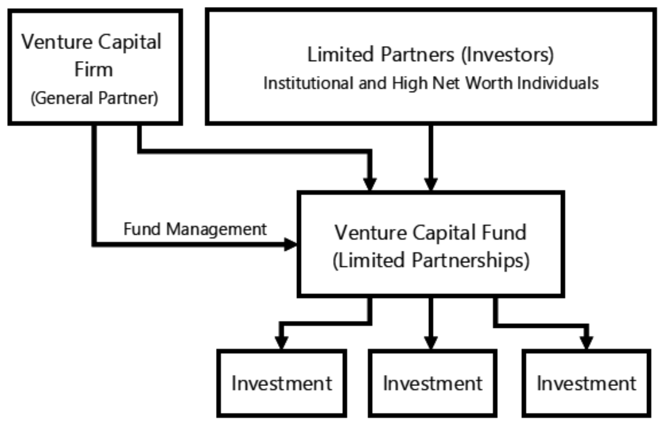

Figure 1: High level operating model of Traditional VC firms

The Unit Fund combines the advantages of the traditional VC approach with the advantages of the decentralized, distributed nature of the blockchain.

3.1 Token Technology

The Unit Fund Token (UFT), a token based on Ethereum, is an important element of a new marketplace. Ethereum is an open source, blockchain-based, distributed computing platform oriented towards smart contracts. Effectively, Ethereum is a distributed virtual machine that allows end users to construct smart contracts for transactions. Smart contracts are stateful applications stored in the Ethereum blockchain.

These contracts are cryptographically secure and can verify or enforce

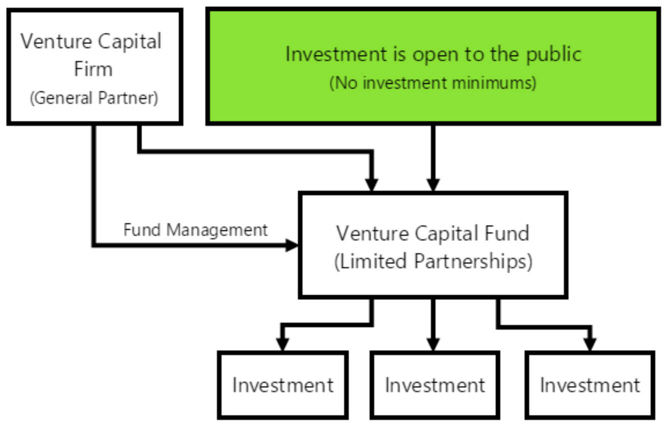

Figure 2: High level operating model behind the Unit Fund

performance of the contract. Token contracts are a standard feature of the Ethereum ecosystem. Ethereum has been used for mobile payment systems, distributed exchanges, tokens pegged to commodities and at currencies, market clearing mechanisms, micropayment systems for distributed computing resources, commodities and securities exchanges, crowdfunding, and legal document verification. Large firms have invested in and deployed Ethereum, with JP Morgan, Deloitte, IBM, Santander Bank, Microsoft, the Luxembourg Stock Exchange, and the Royal Bank of Scotland being key early adopters.

3.2 The Unit Fund Token

The UFTs are fungible, tradable goods that collectively represent the sum of funds that the company will be raising as part of the closed-ended Unit Index Fund.

3.3 Roadmap

The roadmap for the Unit Fund includes distinct stages:

- Pre-Tokensale: During this stage, most of the time was spent recruiting the management team for the fund as well as the advisors that would serve on the Board of Advisors. This includes some prominent figures in the Venture Capital and Angel Investing space, including top-tier investment firms like Y Combinator, 500 Startups and TechStars.
- Tokensale launch: The Tokensale launch date is currently planned for the 25th of July at 9AM UTC (Block number 4,070,937), and will proceed until the sooner of either (1) all of the outstanding tokens are purchased or (2) until 1 month has lapsed, on the 25th of August at 9AM UTC (Block number 4,215,629).
- Dealflow & Investment: Following the completion of the ICO, the closed-end fund will proceed to engage high-potential technology startups from across the globe seeking investment opportunities. This will involve a combination of outreach initiatives (wherein the fund will reach out to investment leads identified through market research conducted by the fund management team) or through inbound channels (leads sourced through the various channels available for applications – through the fund website, marketing channels, partnerships with accelerators and other means). Once an investment is finalized, the term sheet is added to the portfolio and shared on the fund website and in communications with the fund constituents.
- Return on Investment: Investments that successfully exit (either through an Initial Public Offering, or via an acquisition) will trigger conversion of the equity into fiat currency. Upon liquidation, the yield is consolidated with other liquidation events that have taken place during the same quarter, and at the end of the fiscal quarter the yield will be disbursed to the investors in the form of ETH payments back to the originating wallet.

4 Business Landscape

4.1 Competition

Traditional VC firms like Andressen Horowitz, DFJ and others. Traditional VC firms typically raise their funds from a few Limited Partners (comprising both institutional and high net worth individuals). Often, such firms charge a management fee (fixed amount, based on the Assets Under Management) and a "Carry" (representing a percentage of the net profit that the firm realizes). There is currently no way for regular individuals to contribute to a VC fund.

4.2 UFT Advantage Matrix

Present ecosystem	UFT Token system
Minimum investment of $10M+	No minimum investment
Funded with fiat currency	Funded by cryptocurrencies
Potential yield of 20% per year	Potential yield of 20% per year
Faces geographical restrictions	Available to investors internationally

Table 1: Comparison between the Traditional ecosystem and the UFT Token System

4.3 Key Team Members

We believe it's critical to have an experienced team to run a fund of this size efficiently. The management team possess direct experience in both founding companies as well as investing in them.

Yazin Alirhayim: Previously VP, Product at Payfort (an Amazon subsidiary). Founder & CEO of White, an online payments company founded in 2015 based in Dubai, that was later acquired by Payfort – the largest online payment processor in the Middle East region with $1B+ TPV.

Antonio Sosa-Pascual: Antonio is an MIT/UChicago trained investment strategist with over 11 years of experience in private equity and venture capital with a strong focus on technology strategy and distressed real estate investment. Antonio serves as REOF's lead in Financial Advisory and consulting engagements. He leads REOF's Investor Relations efforts with high-net-worth and ultra-high-net-worth individuals and is very active in REOF's Deal Flow efforts.

Hasan Haider: Middle East & North Africa Partner @ 500 Startups. CEO of the first business angels in Bahrain (Tenmou.me)

Ramzy Ismail: Ramzy Ismail is the Program Manager at Techstars Connection, in partnership with Anheuser-Busch InBev and their corporate venture arm, ZX Ventures. Previously Ramzy was the Interim Managing Director and Program Manager at Flat6Labs Abu Dhabi, a $10M UAE-based early stage fund and accelerator.

5 Token Launch

5.1 Token Launch Summary

Our goal is to raise a maximum of $50 million USD and a minimum of $1 million USD. Some of the numbers may change with ETH/USD exchange rates and volatility, but the following numbers are best effort estimates as of July 17, 2017.

- Maximum financing: 284,100 ETH - this may change with exchange rates.
- Minimum financing: 5,682 ETH.
- Exchange rate: 1 ETH = 1,750 Unit Fund Tokens (UFT) -this may change with ETH exchange rates.
- Token contract address: TBD (Published through various channels 24hrs before crowdsale launch date).
- Launch date and time: 9AM UTC Jul 25, 2017 (Block number 4,070,937)
- Token launch time-frame: 1 month (Block number 4,215,629).
- Token launch completion: Token launch will end when either the maximum number of ETH are raised or block number 4,215,629 is reached. If less than the minimum ETH are raised, ETH can be retrieved by holders of UFT.

5.2 Token Distribution

- Each UFT is valued at $1
- Tokens available to public at launch: 50 million (corresponding to the investment cap).

As this is a closed-ended fund, all tokens that are not sold during the Tokensale period will be burnt and **no new tokens will be issued following the Tokensale**. The funds that are purchased at the close of the Tokensale represent the totality of all tokens that will be available for the lifetime of the fund.

The token distribution will vary depending on the total amount raised, since we have a rather large variance between the minimum token raise ($1,000,000) and the investment cap ($50,000,000).

The scenarios are described below:

5.2.1 Raise under $1M

All funds are returned to the investors, less the gas required to execute the refund transaction (typically under $1 in fiat currency). The base cost required for managing such a small fund would curtail the efficient deployment of the capital raised.

5.2.2 Raise between $1M - $10M

In this scenario, the base cost required to manage the fund (Operational, Legal, PR and Development expenses) represent a substantial portion of the amount raised. The distribution reflects this reality, with the breakdown following the below split:

- Management Fees: 17.5% (distributed over the lifetime of the fund)
- Fees paid out to the Advisory Board: 2.5%
- Investment capital: 80%

5.2.3 Raise $10M+

With a larger total capital raise, the fees drop significantly due to greater operational efficiencies:

- Management Fees: 12.5%
- Fees paid out to the Advisory Board: 1.5%
- Investment capital: 86%

6 Fees

We aim to be completely transparent about the fees that are deducted towards the efficient management of the fund, legal expenses and the extensive due-diligence efforts that we employ.

Below, we include a detailed explanation of these fees and how they would be used:

6.1 Management Fees

Management fees are used to fund overhead of the Unit Fund, including salaries, benefits and other compensation and expenses of members, employees, consultants and agents of the partners as well as rent and overhead charges, office expenses and expenses for clerical, travel expenses incurred by the principals in the course of investigating investment opportunities for the Fund.

The Management Fees listed in the Token Distribution section represent the total fees collected over the lifetime of the fund, which results in an annualized rate of about 2.5% per annum.

6.2 Carried Interest (Carry)

Carry is the percentage charged as an incentive fee on profits, sometimes referred to as“incentive allocation”. Given the potential for outsized gains in the venture and buyout category, the carry necessarily incentivizes the general partners to go for big wins.

The Unit Fund has instituted a standard carry of 22%, deducted at the time of disbursement of returns to the investors. This ensures that the incentives for fund managers and investor are aligned.

7 Long Term Outlook

While there have been many innovations in the Block chain space, there remains a large amount of risk that investors need to contend with. With the growing number of ICOs, we have witnessed a sharp increase in the required due diligence effort that individual investors have to undertake in order to properly vet opportunities.

The Unit Fund allows groups of investors to pool their funds in order to leverage shared resources in order to reduce the overhead associated with making sound investment decisions. The Unit Fund provides a welcome resort for investors looking for high potential returns based on sound, predictable business practices. Since the dawn of the VC industry, institutions have existed solely for the purpose of making the rich richer. The Unit Fund opens the opportunity to the public to partake in investment vehicles once exclusive to the ultra-rich.